[Auditor's Description of Condition]
[DSHS Response]
[Laws & Regulations]

The Department of Social and Health Services' Office of Accounting Services has not complied with federal regulations requiring the federal portion of uncashed warrants to be refunded to the Medicaid Program.

General Background

Approximately 80 percent of Medicaid payments are made with warrants issued by the Medical Assistance Administration. Some of the warrants to providers are never cashed, largely because the warrants cannot be delivered due to address changes. If a warrant remains uncashed beyond a period of 180 days from the date it was issued, it is no longer regarded as an allowable federal expenditure, even though the state still has a liability to the vendor. Such warrants are referred to as being beyond the Statute of Limitations. The amount that was provided by the federal government must be refunded to Medicaid in the quarter the warrant was cancelled. Interest penalties accrue on transactions greater than $50,000 that are not refunded within the appropriate quarter.

The State Treasurer's Office regularly updates its computer data to identify uncashed warrants that have reached the 180-day Statute of Limitations and will be automatically cancelled by the Treasurer. The Department's Office of Accounting Services is responsible for checking this information periodically and canceling the warrants through the state's Agency Financial Reporting System.

Description of Condition

We reviewed the Department's procedures for complying with these regulations and found the Office of Accounting Services had not reviewed the Treasurer's data and processed refunds from uncashed warrants since June 2003. When we finished our field work in May, the unprocessed refunds totaled $843,294. Half of this amount, or $421,647, was federal money that should have been refunded. At the time of our audit, the Department was 244 days late in refunding the money to the federal Medicaid Program.

Cause of Condition

The key employee who was primarily responsible for performing this function was away from the job on leave for an extended period of time. Office management stated it was aware of the situation but did not have sufficient staff to provide a replacement.

Effect of Condition

The Department still owes the federal government $421,647 in federal funds to which the state was not entitled. In addition, it owes interest of $2,093 on this amount. The combined federal and state funds of $843,294 in these uncashed warrants are included in the disclaimed amount in the overall Program disclaimer.

Recommendations:

We recommend the Department:

- Cross train staff in all aspects of warrant cancellation and the refunding process, including the importance of checking error reports.

- Establish effective monitoring procedures to identify uncashed and cancelled warrants written with Medicaid funds and determine if proper refunding was accomplished.

- Reimburse the federal government for the federal portion ($421,647) and interest liability ($2,093) related to the uncashed warrants that the state has not yet refunded. The total amount owed to the federal government is $423,740.

Department's Response:

The Department concurs with this finding.

- DSHS issues millions of warrants to vendors, employees, and client payees per year. The statute of limitations (SOL) desk in the Office of Accounting Services (OAS) processes from several hundred to more than 1,000 SOL warrants per month. Statistically, the number of warrants that reach the 180-day SOL is small in comparison to those issued, although the dollars involved may be significant as noted in the finding above.

- During the time of the audit, OAS was experiencing the loss of the key employee responsible for processing SOL warrants. The manager responsible for oversight of the SOL process saw this as an opportunity to develop new procedures to more rapidly clear SOL warrants. During the development of these procedures and the continued absence of the key employee, unprocessed SOL warrants began to accumulate, resulting in the condition expressed in this finding. Once new procedures were developed and a new employee assigned and trained in SOL processing, the backlog of SOL warrants was cleared. Even with these new procedures, there exists a systemic one-month lag that will require the development of additional systems and processes in order to reduce the amount of time that exists from the time we are notified of an SOL warrant to the completion of initial processing and refund of federal funds on that warrant.

- Through an automated process, OAS now receives more timely electronic notification of SOL warrants from the Office of the State Treasurer. OAS is currently working on the timely retrieval of information from DSHS's multiple warrant-generating systems in order to facilitate more rapid SOL processing. The current process is very labor intensive and needs further automation. We are currently studying the SOL warrant process from top to bottom in an effort to make the process more efficient and effective.

- Per the SAO's recommendations, OAS will cross-train additional staff to support processing SOL warrants. OAS will continue developing effective monitoring procedures to identify and ensure SOL warrants pertaining to Medicaid and all other funding sources are properly addressed so that refunds to federal programs occur in a timely manner. The SOL warrants in question have been processed and the resultant Medicaid funds have been refunded to the federal government through the federal draw process and are included in the 2004 Third Quarter Medicaid (CMS-64) and CHIPS (CMS-21) claims. (Documents to support this assertion are available for review.)

Auditor's Final Response:
To be supplied

Applicable Laws and Regulations:

Title 42, Code of Federal Regulations, Section 433.40 states in part:

(c) **Refund of Federal financial participation (FFP) for uncashed checks-**

> (1) General provisions. If a check remains uncashed beyond a period of 180 days from the date it was issued; i.e., the date of the check, it will no longer be regarded as an allowable program expenditure. If the State has claimed and received FFP for the amount of the uncashed check, it must refund the amount of FFP received.
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> (2) Report of refund. At the end of each calendar quarter, the State must identify those checks which remain uncashed beyond a period of 180 days after issuance. The State agency must refund all FFP that it received for uncashed checks by adjusting the Quarterly Statement of Expenditures for that quarter....
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> (3) If the State does not refund the appropriate amount as specified in paragraph (c)(2) of this section, the amount will be disallowed.

Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states in Attachment A, Section C.4.a:

> Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

Title 31of the Code of Federal Regulations describes the Treasury-State agreement known as the Cash Management Improvement Act and includes the Medicaid program. Section 205.15 states in part:

> **When does State interest liability accrue?**
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> (a) General rule. State interest liability may accrue if Federal funds are received by a State prior to the day the State pays out the funds for Federal assistance program purposes. State interest liability accrues from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for Federal assistance program purposes.
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> (b) Refunds.
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>> (1) A State incurs interest liability on refunds of Federal funds from the day the refund is credited to a State account to the day the refund is either paid out for Federal assistance program purposes or credited to the Federal government.
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>> (2) We and a State may agree, in a Treasury-State agreement, that a State does not incur an interest liability on refunds in refund transactions under $50,000.....
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> (d) Mandatory matching of Federal funds...A State incurs interest liabilities if it draws Federal funds in advance and/or in excess of the required proportion of agreed upon levels of State contributions in programs utilizing mandatory matching of Federal funds with State funds.